

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009**NOTE E – CAPITAL ASSETS (continued)**

Depreciation expense was allocated to governmental and proprietary functions as follows:

**Governmental functions:**

Instructional	46,487
Student support services	91,664
Instructional staff support	33,989
District administration	852
School administration	1,251
Business support services	2,671
Plant operations and management	915,988
Student transportation	189,817
Central office support	14,180
Community service activities	<u>239</u>

Total depreciation expense - Governmental functions	<u>1,297,138</u>
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**Proprietary functions:**

Food service operations	<u>44,850</u>
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**NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES**

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2009, as follows:

Year ending June 30:	
2010	33,572
2011	17,993
2012	17,993
2013	<u>2,999</u>
<u>Total</u>	<u>72,557</u>

**NOTE G – RETIREMENT PLANS**

Kentucky Teachers Retirement System:

**Pension Plan**

*Plan Description* – The Leslie County Public Schools contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009**NOTE G – RETIREMENT PLANS (continued)**

systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

*Funding Policy* – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS and 10.855% if hired on or after July 1, 2008. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions.

**Medical Insurance Plan**

*Plan Description* – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical insurance benefits is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

*Funding Policy* – The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Leslie County Public School District's total payroll for the year was \$11,891,813. The payroll for employees covered under KTRS was \$9,083,458. For the year ended June 30, 2009, the Commonwealth contributed \$1,012,806 to KTRS for the benefit of the participating employees. The School District's contributions to KTRS for the year ending

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE G – RETIREMENT PLANS (continued)

June 30, 2009 were \$178,131, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00%, and a district contribution of 13.5% of the employee's total compensation subject to contributions. Total payroll for employee's covered under CERS was \$2,609,688.

The contribution requirement for CERS for the year ended June 30, 2009 was \$482,007 which consisted of \$351,840 from the District and \$130,167 from the employees.

Following is a summary of contributions paid on-behalf of the employees for the past three years:

Year Ended <u>June 30,</u>	<u>KTRS</u>		<u>CERS</u>
	<u>District</u>	<u>State</u>	
2009	178,131	1,012,806	351,840
2008	158,553	1,035,726	400,849
2007	148,528	973,002	312,246

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to-date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	<u>KTRS</u> <u>as of June 30, 2008</u> (in millions of dollars)	<u>CERS</u> <u>as of June 30, 2008</u> (in millions of dollars)
Actuarial accrued liabilities	22,460.3	9,707.3
Actuarial value of assets	<u>15,321.3</u>	<u>7,482.4</u>
Unfunded (overfunded) actuarial accrued liabilities	<u>7,139.0</u>	<u>2,224.9</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE G – RETIREMENT PLANS (continued)

Historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2008 comprehensive annual financial reports.

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets.

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Insurance for worker's compensation, errors and omissions, educator's legal liability, property (including vehicles) and general liability is carried through various agencies. Contributions to Workers' Compensation Insurance are based on premium rates established with the excess insurance carrier, subject to claims, experience modifications and a group discount amount.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE L – DEFICIT OPERATING/FUND BALANCES

The following funds had deficit balances at June 30, 2009:

None

The following funds had expenditures in excess of revenues at June 30, 2009:

General Fund	419,652
Day Care Operations	11,033
Leslie County High Activity Fund	3,635
Hyden Elementary School Activity Fund	14,449
Hayes Lewis Elementary School Activity Fund	1,100

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Debt Service Fund	Retire debt	268,713
Capital Outlay Fund	Debt Service Fund	Retire debt	85,670
FSPK Fund	Debt Service Fund	Retire debt	577,063
General Fund	Special Revenue Fund	Technology match	<u>35,552</u>
			<u>966,998</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2009 were as follows:

None

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2009NOTE P – ANNUAL FINANCIAL REPORT DIFFERENCES

The following is a reconciliation of the June 30, 2009, fund balances/retained earnings reported by the Board to the Kentucky Department of Education with that shown in the accompanying fund financial statements:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Proprietary Funds</u>
Fund Balance/Retained Earnings as reported to the Department of Education	978,254	54,261	2,832,867	168,333
Adjustment to Fund Balance/Retained Earnings				
(1) To reclassify & adjust cash	12,910	(12,910)	65,638	-
(2) To adjust accounts receivable	102,171	13,060	-	22,360
(3) To adjust accounts payable	88,929	(150)	-	-
(4) To adjust deferred revenue	-	(54,261)	-	-
(5) To record net fixed assets	-	-	-	763,548
Fund Balance/Retained Earnings per fund financial statements at June 30, 2009	<u>1,182,264</u>	<u>-</u>	<u>2,898,505</u>	<u>954,241</u>

NOTE Q – ON-BEHALF PAYMENTS

The District recognized \$3,158,432 as on-behalf payments for governmental funds and \$129,733 for proprietary funds for the year ended June 30, 2009.

NOTE R – PRIOR PERIOD RESTATEMENT

The following restatement was made to government-wide beginning net assets at July 1, 2008:

The statement of activities beginning fund balance reflects a \$1,479,445 net increase for prior year buildings and related improvements not previously recognized as fixed assets.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDSAt June 30, 2009

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Debt Service Funds</u>	<u>Total</u>
<b>Asset and resources:</b>				
Cash and cash equivalents	<u>71,919</u>	<u>134,439</u>	<u>-</u>	<u>206,358</u>
<b>Total assets and resources</b>	<u>71,919</u>	<u>134,439</u>	<u>-</u>	<u>206,358</u>
<b>Liabilities and fund balances:</b>				
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
- Fund balances -				
Restricted for KFSCC escrow	<u>37,498</u>	<u>95,497</u>	<u>-</u>	<u>132,995</u>
Unreserved fund balance	<u>34,421</u>	<u>38,942</u>	<u>-</u>	<u>73,363</u>
<b>Total fund balances</b>	<u>71,919</u>	<u>134,439</u>	<u>-</u>	<u>206,358</u>
<b>Total liabilities and fund balances</b>	<u>71,919</u>	<u>134,439</u>	<u>-</u>	<u>206,358</u>

LESLIE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2009

	SEEK Capital Outlay Fund	Building Fund	Debt Service Funds	Total
<b>Revenues:</b>				
From local sources:				
General real property tax	-	293,608	-	293,608
Interest income	-	-	-	-
Intergovernmental - State	165,358	295,894	899,891	1,361,143
<b><u>Total revenues</u></b>	<u>165,358</u>	<u>589,502</u>	<u>899,891</u>	<u>1,654,751</u>
<b>Expenditures:</b>				
Plant operations and management	47,159	-	-	47,159
New building construction	-	-	-	-
Bond principal	-	-	1,278,551	1,278,551
Bond interest	-	-	552,786	552,786
<b><u>Total expenditures</u></b>	<u>47,159</u>	<u>-</u>	<u>1,831,337</u>	<u>1,878,496</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>118,199</u>	<u>589,502</u>	<u>(931,446)</u>	<u>(223,745)</u>
<b>Other financing sources (uses):</b>				
Bond proceeds	-	-	-	-
Operating transfers in	-	-	931,446	931,446
Operating transfers out	(85,670)	(577,063)	-	(662,733)
<b><u>Total other financing sources (uses)</u></b>	<u>(85,670)</u>	<u>(577,063)</u>	<u>931,446</u>	<u>268,713</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>32,529</u>	<u>12,439</u>	<u>-</u>	<u>44,968</u>
Fund balance, July 1, 2008	<u>39,390</u>	<u>122,000</u>	<u>-</u>	<u>161,390</u>
Fund balance, June 30, 2009	<u>71,919</u>	<u>134,439</u>	<u>-</u>	<u>206,358</u>



LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCELESLIE COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2009

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2008</u>	<u>Fund Balance June 30, 2009</u>
Academics	2,669	2,391	278	91	369
Art	11	-	11	32	43
Journalism	13,521	14,081	(560)	15885	15,325
Juniors	3,570	3,558	12	517	529
National Honor Society	330	-	330	66	396
General Fund	31,597	32,985	(1,388)	1794	406
Senior Class	37,602	37,602	-	-	-
Student Body Government	76	68	8	629	637
Drama Club	-	-	-	509	509
School to Careers	2	48	(46)	48	2
PTO	-	1,330	(1,330)	1330	-
Project Sober	2,677	2,087	590	376	966
Extracurricular	64,831	60,947	3,884	2538	6,422
Food Prep School Based	-	28	(28)	190	162
Enterprise	-	-	-	-	-
Band	295	-	295	-	295
Baseball	6,926	9,913	(2,987)	3387	400
Boys Basketball	7,739	8,298	(559)	636	77
BB Cheerleaders	3,736	3,213	523	-	523
Football	10,260	13,219	(2,959)	3101	142
FB Cheerleaders	5,833	3,856	1,977	-	1,977
Girls Basketball	16,601	14,287	2,314	8168	10,482
Softball	5,555	5,443	112	-	112
Track	7,471	8,770	(1,299)	1764	465
Volleyball	4,477	6,639	(2,162)	2259	97
Cross Country	1,439	3,003	(1,564)	2210	646
Field House	1,000	-	1,000	-	1,777
Teacher Vending	1,643	1,730	(87)	777	(87)
<u>Sub-total</u>	<u>229,861</u>	<u>233,496</u>	<u>(3,635)</u>	<u>46,308</u>	<u>42,673</u>
Less: Interfund transfers	<u>(8,261)</u>	<u>(8,261)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total</u>	<u>221,600</u>	<u>225,235</u>	<u>(3,635)</u>	<u>46,308</u>	<u>42,673</u>

This fund maintains accounts separate from MUNIS at June 30, 2009.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2009

	Hayes Lewis Elementary	Hyden Elementary	Leslie County Middle	Stinnett Elementary	W.B. Muncy Elementary	Total (Memorandum Only)
<u>REVENUES:</u>						
Activity funds	31,786	49,133	39,417	53,378	38,172	211,886
<u>EXPENDITURES:</u>						
Activity funds	<u>32,886</u>	<u>63,582</u>	<u>35,107</u>	<u>52,019</u>	<u>34,761</u>	<u>218,355</u>
Excess or (deficiency) of revenues over expenditures	(1,100)	(14,449)	4,310	1,359	3,411	(6,469)
Fund Balance, July 1, 2008	<u>24,651</u>	<u>16,627</u>	<u>5,814</u>	<u>21,960</u>	<u>7,651</u>	<u>76,704</u>
Fund Balance, June 30, 2009	<u>23,551</u>	<u>2,178</u>	<u>10,124</u>	<u>23,319</u>	<u>11,062</u>	<u>70,235</u>

These funds maintain accounts separate from MUNIS at June 30, 2009.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- Child Nutrition Cluster -	* 10.553	7760005 08	N/A	47,451
School Breakfast Program	* 10.553	7760005 09	N/A	159,974
				<u>207,425</u>
School Lunch Program	* 10.555	7750002 08	N/A	108,728
	* 10.555	7750002 09	N/A	354,243
				<u>462,971</u>
Summer Food Service Program for Children	* 10.559	7740023 08	N/A	6,413
	* 10.559	7690024 08	N/A	664
				<u>7,077</u>
Fruit & Vegetable Program	* 10.582	7720012 08	N/A	2,299
	* 10.582	7720012 09	N/A	13,026
				<u>15,325</u>
Passed through State Department of Agriculture:				
Food Donation (non cash assistance)	10.550	N/A	N/A	<u>50,108</u>
<u>Total U.S. Department of Agriculture</u>				<u>742,906</u>
<u>U.S. Department of Commerce</u>				
Direct				
(PRIDE) Personal Responsibility in a Desirable Environment				
- Environmental Education	11.420	2709	13,600	<u>12,189</u>
<u>U.S. Department of Justice</u>				
Passed through the Center for Rural Development				
Edward Byrne Memorial State and Local Law Enforcement				
Assistance Discretionary Grants Programs				
U.N.I.T.E.	16.580	3007	54,572	<u>775</u>
<u>Total U.S. Department of Justice</u>				<u>775</u>

\* - Indicates major programs

LESLIE COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

For the Year Ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
Title 1	* 84.010	3108	859,174	145,860
	* 84.010	3108D	148,155	52,546
	* 84.010	3109	981,640	868,894
	* 84.010	3109D	134,883	111,159
	* 84.010	3109M	11,395	2,819
	* 84.010	3109T	7,500	4,656
School Improvement, Part A	* 84.010	3206	84,931	139
	* 84.010	3207	28,992	12,718
	* 84.010	3203	5,600	345
				<u>1,199,136</u>
Title VI Innovative Program Strategies	84.298A	3347	3,692	924
	84.298A	3348		2,943
				<u>3,867</u>
-Special Education Cluster -				
IDEA - B Basic (Special Education Grants to States)	* 84.027	3378	447,483	286,522
	* 84.027	3379	449,472	254,746
				<u>541,268</u>
Special Education - Preschool	* 84.173	3439	21,924	21,924
				<u>21,924</u>
				<u>563,192</u>
Total - Special Education Cluster				235
Rural/Low Income School Education Program	84.358	3507	56,549	31,322
	84.358	3508	56,549	36,368
	84.358	3509	47,284	67,925
				<u>67,925</u>
Tech Prep Education	84.243	3639	16,000	7,624
				<u>7,624</u>
Gear Up	84.334A	3798G	7,900	2,447
	84.334A	3799G	2,800	2,902
				<u>5,349</u>

\* - Indicates major programs

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Program Expenditures</u>
Improving Teacher Quality State Grants	84.367	4018	242,734	44,627
	84.367	4019	252,546	252,545
				<u>297,172</u>
Title IV - Safe and Drug Free Schools and Communities	84.186	4066	23,486	2,052
	84.186	4068	16,869	5,663
	84.186	4069	13,876	500
				<u>8,215</u>
Title II - D Education Technology	84.318X	4257C	35,922	2,599
	84.318X	4258	10,083	1,582
	84.318X	4258C	36,223	29,975
	84.318X	4259	10,796	1,895
				<u>36,051</u>
- Direct -				
Grants for School Based Students Drug Testing	84.184D	5346D	50,000	4,000
		5348D	46,000	16,539
				<u>20,539</u>
Mentoring Program Grant	84.184B	5348B	144,206	<u>102,099</u>
21st Century Learning Centers	84.287A	5506	140,782	43,954
	84.287A	5507	140,782	45,258
	84.287A	5508	140,782	22,421
	84.287A	5509	105,587	1,519
				<u>113,152</u>
<u>Total Department of Education</u>				<u>2,424,321</u>
<u>Total Federal Awards Expended</u>				<u>3,180,191</u>

**NOTE A**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Leslie County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

**NOTE B**

Non-monetary assistance is reported in the schedule at the fair value of the food donations disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

State Committee for School District Audits  
Members of Leslie County Board of Education  
Hyden, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District as of and for the year ended June 30, 2009, which collectively comprise the Leslie County School District's basic financial statements and have issued our report thereon dated November 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirement prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Leslie County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not to purpose of expressing an opinion on the effectiveness of the Leslie County School District's internal control over reporting. Accordingly, we do not express an opinion on the effectiveness of the Leslie County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Leslie

County School District's ability to initiate, authorize, record, process, or report financial data reliability in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Leslie County School District's financial statements that is more than inconsequential will not be prevented or detected by the Leslie County School District's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting noted as reference 2009-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Leslie County School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

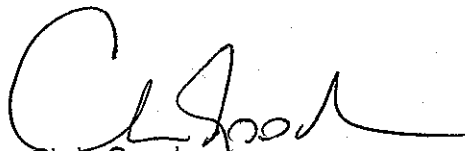
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leslie County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Leslie County School District, in a separate letter dated November 4, 2009. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

Leslie County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Leslie County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, management, the Kentucky Department of Education, the Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "Chris Gooch", with a large, stylized "C" at the beginning.

Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 4, 2009



**Chris Gooch**

Certified Public Accountant  
P.O. Box 1536  
Hazard, Kentucky 41702  
(606) 436-5700

FAX : (606) 436-5701

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

State Committee for School District Audits  
Members of Leslie County Board of Education  
Hyden, Kentucky

Compliance

We have audited the compliance of Leslie County School District, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Leslie County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Leslie County School District's management. Our responsibility is to express an opinion on Leslie County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Leslie County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Leslie County School District's compliance with those requirements.

In our opinion, Leslie County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

### Internal Control Over Compliance

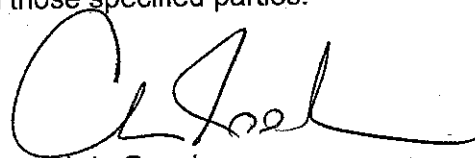
The management of Leslie County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Leslie County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Leslie County School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses, as defined above.

This report is intended solely for the information of and use of Board, management, the Kentucky Department of Education, the Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 4, 2009

LESLIE COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSFor the Year Ended June 30, 2009**2008-01**

Condition: Cash and other balance sheet annual financial reporting information did not agree to underlying documentation when presented for audit resulting in significant audit adjustments.

Criteria: End of the year reporting information should be reviewed and reconciled to underlying documentation and differences noted to ensure management awareness for any potential adjusting entries.

Cause: Management has not established effective monitoring procedures to document differences.

Effect: The annual financial report may not be accurate or reliable.

Recommendations: The District should enhance its controls over fiscal year end processing to include review of account balances for all fund types to ensure significant adjustments are entered or provide evidence that establishes knowledge that certain adjusting entries should be made to ensure reliability of the financial statements.

Management's Response: The District will enhance its control procedures over fiscal year-end processing to include review of account balances for all fund types to ensure significant adjustments are posted or potential adjustments are acknowledged.

Current year Response: The District has enhanced its control procedures over fiscal year-end processing to include review of account balances for all fund types to ensure significant adjustments are posted or potential adjustments are acknowledged. However, we noted a prior period adjustment was required to recognize previously unrecorded fixed assets.

**- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -**

None

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2009- SUMMARY OF AUDIT RESULTS -

1. We have issued an unqualified opinion on the financial statements.
2. Control deficiencies in the internal control were disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No control deficiencies were disclosed by the audit in internal control over major programs.
5. We have issued an unqualified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under Section .510(a) of A-133.
7. Leslie County School District had the following major programs:

U. S. Department of Education  
Passed through State Department of Education  
Title I, CFDA number 84.010  
-Special Education Cluster-  
IDEA-B Basic, CFDA number 84.027  
IDEA-B Preschool, CFDA number 84.173  
Improving Teacher Quality State Grants, CFDA no. 84.367

U.S. Department of Agriculture  
Passed through State Department of Education  
- School Nutrition Cluster -  
School Lunch and Breakfast Program,  
Summer Food Service Program for Children,  
Fruit and Vegetable Program  
CFDA numbers 10.553, 10.555, 10.559 and 10.582

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)For the Year Ended June 30, 2009- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -**2009-01**

Condition: A significant prior period adjustment was posted to fixed assets to reflect actual buildings and improvements not previously recorded.

Criteria: End of the year reporting information should be reviewed and reconciled to underlying documentation and differences noted to ensure management awareness for any potential adjusting entries.

Cause: Management has not established effective monitoring procedures to document differences.

Effect: The annual financial report may not be accurate or reliable.

Recommendations: The District should enhance its controls over fiscal year end processing to include review of account balances for all fund types to ensure significant adjustments are entered or provide evidence that establishes knowledge that certain adjusting entries should be made to ensure reliability of the financial statements.

Management's Response: The District will enhance its controls procedures over fiscal year-end processing to include review of account balances for all fund types to ensure significant adjustments are posted or potential adjustments are acknowledged.

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

**Chris Gooch**

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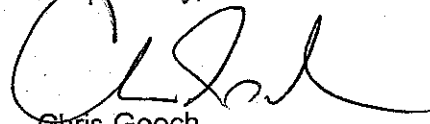
Leslie County Board of Education  
Hyden, Kentucky

In planning and performing our audit of the financial statements of Leslie County School District for the year ended June 30, 2009, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 4, 2009, contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 4, 2009 on the financial statements of the Leslie County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,



Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 4, 2009

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2009Prior Year Comments

## 1. Completing state prescribed activity fund forms

Condition: Two ticket sales reports and one fundraising report test sampled at Hyden Elementary School were not complete. One fundraising report at Leslie County High School regarding pizza kits were not completed.

Criteria: State prescribed forms should be completed for all fundraising and ticket sales activities and be reconcilable to the activity fund's underlying documentation.

Recommendation: Personnel should ensure that fundraising and ticket sales reports are complete and reconcilable to the activity fund's underlying documentation.

Cause: The reports were not complete and did not indicate reconciliation to the activity fund's underlying documents.

Effect: Without completed and reconciled forms, the risk is greater that fraud may occur.

Management's Response: Management will periodically perform site reviews of activity fundraiser and ticket sales reports and reconcile to the activity fund's underlying documents.

Current Year:  
Auditors Comment: We noted no state prescribed inventory reports prepared regarding concession sales for High School activities.

Current Year Comments

## 1. Monitoring passes distributed at ticket-controlled events

Condition: No system is in place to reconcile the number of passes distributed at ticket-controlled events to actual attendance.

Criteria: Total attendance at events including passes should be maintained to provide completeness of ticket sales reports.

Recommendation: The District should maintain controls over passes distributed at events and consider when estimating total attendance at events to total revenue collected.

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2009**Current Year Comments (continued)**

Cause: The District's current system does not monitor passes for ticket-controlled events.

Effect: There is a higher risk that actual cash receipts at the gate will not be deposited.

Management Response: Management will devise methods for controlling passes and comparing to total attendance as reported on ticket sales reports.

**2. Procedures for purchase orders**

Condition: We noted during a general fund test of disbursement transactions related to vehicle fuel, parts and supplies three purchase orders whose amount listed was not comparable to the actual amount paid.

Criteria: The purchase order should provide a reasonable estimate of the amount actually disbursed.

Cause: The purchase order procedure did not provide a reasonable estimate of the amount actually disbursed.

Effect: The District is not using the purchase order process as an effective monitoring tool. Outstanding obligations using purchase orders may not be reliable.

Recommendation: The District should ensure the stated amount of the purchase order is a reasonable estimate of the amount to be expended.

Management Response: The District will review its procedures for purchase orders and ensure that amounts on purchase orders is a reasonable estimate of the amount disbursed.

**3. Segregation of Duties – Child Care Program Procedures**

Condition: Only one person is involved in collecting cash receipts, compiling reports and depositing receipts related to the Hyden Elementary Child Care program.

Criteria: To lower control risk, each of the above-referenced functions should include dual control procedures.

Cause: Only one person was involved in transaction processing for the above-referenced functions.



LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2009**Current Year Comments (continued)**

Effect: The risk that fraud will occur is increased.

Recommendation: The District should segregate duties regarding the above-referenced functions.

Management's Response: The District has designated separate personnel for the following functions: cash receipt collection, report preparation and depositing cash.

**4. Maintenance of Petty Cash accounts**

Condition: A petty cash account was maintained but not reported in regard to the Hyden Elementary Child Care program.

Criteria: All program transactions should be compiled and submitted to appropriate officials for review and approval.

Cause: The program was maintaining a petty cash account but not reporting transactions to Central Office personnel.

Effect: The risk that fraud will occur is increased. Program transactions are occurring that are not recorded in the District's records.

Recommendation: The District should require a periodic report be submitted signifying authorization at the School level for petty cash transactions.

Management's Response: The School was informed that petty cash accounts will no longer exist for Child Care program transactions with the exception of a \$20 balance for change.

**5. Supporting documentation accompanying school activity fund transactions.**

Condition: The following transactions paid out of the Hayes Lewis Elementary Activity Fund did not have detail itemized invoices: Lowes, #7035 and #7038 for \$1,100 and \$250, respectively. A check written to Hyden Double Kwik, #5100, from the Hyden Elementary Activity Fund for \$850 for 14 gas cards did not have documentation listing the recipient or purpose. A check written to IGA totaling \$2,049.39 from Hyden Elementary Activity Fund was for transactions occurring over a year and was paid off of a statement and not an itemized invoice.

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2009**Current Year Comments (continued)**

Criteria:	All disbursement transactions should have readily available documentation confirming its purpose and function.
Cause:	The above-referenced transactions were not supported by adequate documentation.
Effect:	The risk that fraud will occur is increased. Unauthorized and unallowable transactions may be occurring.
Recommendation:	The District should require adequate documentation support each disbursement transaction before payment is made.
Management's Response:	The District will emphasize to appropriate personnel the necessity of adequate support documentation before payment is made and perform periodic internal reviews of disbursement transaction documentation.